

Odyssey House

Financial Statements

**With Supplementary Information
And
Compliance Reports**

Year Ended June 30, 2005

And

Independent Auditor's Report

SHAW & CO., P.C.

Certified Public Accountants & Business Advisors

Odyssey House

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SHAW & CO., P.C.

Certified Public Accountants & Business Advisors

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Odyssey House
Salt Lake City, UT

We have audited the accompanying statement of financial position of Odyssey House (a nonprofit organization) as of June 30, 2005, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's June 30, 2004 financial statements and, in our report dated September 8, 2004, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Odyssey House as of June 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2005 on our consideration of Odyssey House's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Odyssey House taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Shaw & Co., P.C.

Bountiful, Utah
October 14, 2005

Odyssey House
Statement of Financial Position
June 30, 2005
With Comparative Totals For June 30, 2004

	<u>6/30/2005</u>	<u>6/30/2004</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 551,393	\$ 596,538
Marketable securities	728,487	730,184
Grants receivable	359,829	338,518
Fee for service - accounts receivable	333,912	289,650
Vocational training - accounts receivable	104,761	53,845
Related-party accounts receivable	(613)	6,595
Other accounts receivable	14,684	15,627
Allowance for doubtful accounts	(33,931)	(19,443)
Prepaid expenses	37,911	26,615
Total current assets	<u>2,096,433</u>	<u>2,038,129</u>
Fixed assets, at cost		
Furniture, fixtures, equipment and software	587,734	553,935
Leasehold improvements	626,769	543,359
Vehicles	259,726	268,125
Total fixed assets	<u>1,474,229</u>	<u>1,365,419</u>
Less accumulated depreciation	<u>(916,748)</u>	<u>(932,517)</u>
Net fixed assets	<u>557,481</u>	<u>432,902</u>
Cash value of life insurance policy	<u>48,896</u>	<u>44,142</u>
Total assets	<u>\$ 2,702,810</u>	<u>\$ 2,515,173</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 45,442	\$ 106,366
Accrued liabilities	177,196	186,196
Medicaid reserve	109,712	102,195
Deferred revenue - fee for service	18,946	19,013
Total current liabilities	<u>351,296</u>	<u>413,770</u>
Net assets		
Unrestricted		
Undesignated	339,483	339,483
Designated by the board of directors	1,401,396	1,305,081
Fixed assets	557,481	432,902
Temporarily restricted	53,154	23,937
Permanently restricted	<u>-</u>	<u>-</u>
Total net assets	<u>2,351,514</u>	<u>2,101,403</u>
Total liabilities and net assets	<u>\$ 2,702,810</u>	<u>\$ 2,515,173</u>

See accompanying notes to financial statements.

Odyssey House
Statement of Activities
Year Ended June 30, 2005
With Comparative Totals For The Year Ended June 30, 2004

	6/30/2005			6/30/2005	6/30/2004
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
REVENUES AND SUPPORT					
Grants	\$ 2,321,958	\$ -	\$ -	\$ 2,321,958	\$ 2,246,392
Fee for service	1,353,714	-	-	1,353,714	1,306,296
Vocational training	326,369	-	-	326,369	290,709
Contributions	280,447	53,421	-	333,868	132,083
Food stamps	114,825	-	-	114,825	143,302
Special events	66,590	-	-	66,590	100,841
Interest and dividends	33,591	-	-	33,591	34,322
Other income	9,790	-	-	9,790	16,850
Unrealized losses	(1,697)	-	-	(1,697)	(23,403)
Realized loss on sale of marketable securities	-	-	-	-	(2,913)
Loss on disposal of assets	(1,779)	-	-	(1,779)	(2,406)
Net assets released from restrictions	24,204	(24,204)	-	-	-
	<u>4,528,012</u>	<u>29,217</u>	<u>-</u>	<u>4,557,229</u>	<u>4,242,073</u>
EXPENSES					
Program services	3,838,706	-	-	3,838,706	3,511,725
Management and general	418,922	-	-	418,922	242,821
Fundraising	49,490	-	-	49,490	254,366
	<u>4,307,118</u>	<u>-</u>	<u>-</u>	<u>4,307,118</u>	<u>4,008,912</u>
Change in net assets	220,894	29,217	-	250,111	233,161
Net assets, beginning of year	<u>2,077,466</u>	<u>23,937</u>	<u>-</u>	<u>2,101,403</u>	<u>1,868,242</u>
Net assets, end of year	<u>\$ 2,298,360</u>	<u>\$ 53,154</u>	<u>\$ -</u>	<u>\$ 2,351,514</u>	<u>\$ 2,101,403</u>

See accompanying notes to financial statements.

Odyssey House
Statement of Functional Expenses
Year Ended June 30, 2005
With Comparative Totals For The Year Ended June 30, 2004

	<u>6/30/2005</u>			<u>6/30/2005</u>	<u>6/30/2004</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total</u>
Salaries and wages	\$ 1,741,873	\$ 235,560	\$ 27,550	\$ 2,004,983	\$ 1,935,399
Payroll taxes	132,047	17,778	2,127	151,952	141,000
Employee benefits	<u>287,377</u>	<u>38,692</u>	<u>4,630</u>	<u>330,699</u>	<u>281,042</u>
Total salaries and related expenses	2,161,297	292,030	34,307	2,487,634	2,357,441
Patient care	351,814	-	-	351,814	261,451
Consultants	244,062	-	-	244,062	240,020
Supplies	211,614	28,491	3,409	243,514	204,115
Occupancy	155,074	20,879	2,498	178,451	193,764
Repairs and maintenance	123,124	16,577	1,984	141,685	142,261
Insurance and dues	104,448	14,063	1,683	120,194	99,615
Utilities	95,587	12,870	1,540	109,997	110,864
Bad debts	74,302	-	-	74,302	54,606
Screening	64,774	-	-	64,774	54,254
Miscellaneous	52,329	7,046	843	60,218	61,157
Telephone	39,927	5,376	643	45,946	46,718
Auto and travel	37,113	4,997	598	42,708	44,490
Staff training	32,677	4,400	526	37,603	31,120
Marketing	18,688	2,516	301	21,505	16,778
Meals and entertainment	13,527	1,821	218	15,566	24,456
Printing and subscriptions	10,680	1,438	172	12,290	13,999
Postage	<u>5,139</u>	<u>692</u>	<u>83</u>	<u>5,914</u>	<u>5,647</u>
Total expenses before depreciation	3,796,176	413,196	48,805	4,258,177	3,962,756
Depreciation	<u>42,530</u>	<u>5,726</u>	<u>685</u>	<u>48,941</u>	<u>46,154</u>
Total expenses	<u>\$ 3,838,706</u>	<u>\$ 418,922</u>	<u>\$ 49,490</u>	<u>\$ 4,307,118</u>	<u>\$ 4,008,910</u>

See accompanying notes to financial statements.

Odyssey House
Statement of Cash Flows
Year Ended June 30, 2005
With Comparative Totals For The Year Ended June 30, 2004

	<u>6/30/2005</u>	<u>6/30/2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 250,111	\$ 233,161
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	48,941	46,154
Unrealized loss on investments	1,697	23,403
Allowance for doubtful accounts	14,487	(29,628)
Loss on disposal of asset	1,779	1,287
Changes in operating assets and liabilities:		
Grants receivable	(21,311)	(92,935)
Fee for service - accounts receivable	(44,261)	(6,726)
Vocational training - accounts receivable	(50,917)	53,645
Related-party accounts receivable	7,209	56,630
Other accounts receivable	943	(749)
Prepaid expenses	(11,296)	(8,220)
Cash value of life insurance policy	(4,754)	(6,588)
Accounts payable	(60,923)	(2,769)
Accrued liabilities	(8,999)	61,156
Medicaid reserve	7,517	(8,536)
Deferred revenue - fee for service	(67)	19,013
	<u>130,156</u>	<u>338,298</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(175,301)	(101,297)
Proceeds from sale of marketable securities	-	95,196
Purchases of marketable securities	-	(92,000)
	<u>(175,301)</u>	<u>(98,101)</u>
Net cash (used in) investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
Net change in cash	(45,145)	240,197
Cash and cash equivalents, beginning of year	<u>596,538</u>	<u>356,341</u>
Cash and cash equivalents, end of year	<u>\$ 551,393</u>	<u>\$ 596,538</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ -	\$ -
Cash paid for taxes	\$ -	\$ -

See accompanying notes to financial statements.

Odyssey House
Notes to Financial Statements
June 30, 2005

1. ORGANIZATION BASIS OF PRESENTATION

Odyssey House (the "Organization") was incorporated under the laws of the State of Utah as a nonprofit corporation on May 28, 1970. The Organization is a nonprofit Utah corporation providing treatment of drug and alcohol addiction, emotional problems, and anti-social behavior. The treatment programs teach new values, healthy coping skills, and how to maintain drug-free, positive and productive lifestyles.

The Organization offers a full range of programs and services at the Adult, Adolescent, and Women and Children's treatment facilities including comprehensive psychiatric, medical and educational evaluations; individual, group and family therapy; therapeutic modules; practical living skills and cultural and recreational opportunities. The Organization also provides a fully-accredited educational program, vocational training, transitional living facilities, after-care services, out-patient and prevention services and ongoing support systems.

Support and Program Services

Support and program services provided by the Organization are as follows:

Adult Services

A drug-free, co-educational program for residents age 17 and older for drug and alcohol addiction, abuse victims, and psychological and/or emotional problems.

Adolescent Treatment

A treatment program which serves young people between the ages of 13 and 18. This program helps adolescents overcome problems of drug and alcohol abuse, delinquency or gang involvement and emotional or psychological problems left over from such traumas as physical or sexual abuse.

Women and Children

This program offers therapeutic, structured residential living and day treatment for adult residents, as well as specialized services for their children. The program has been designed as a residential day treatment program for women age 17 and older, with up to three children under age eight. The program offers 24-hour supervision for high-risk women with children, and focuses on treating the multi-generational cycles of drug abuse, child abuse and neglect which negatively impact family systems.

Children Services

This program offers services to children of women participating in the Women and Children program.

Outpatient

This program is designed for people who are experiencing substance abuse problems, but who do not need day or residential treatment. Services include assessment; individual, group and family therapy; psycho educational group; relapse prevention; social skills training and aftercare.

Transition House

This program offers residence in a drug-free transitional living house. These facilities provide program graduates with a supportive environment and an on-site staff specifically trained to supervise the transition from a structured program to independent living. In this environment residents gain

support, receive counseling, and learn how to manage money, plan for their education and find employment.

Vocational Training

This program gives residents job training and experience as part of their treatment process. These projects also raise funds and help defray expenses for residents who are unable to afford the full cost of treatment. On-the-job training gives residents the opportunity to develop marketable job skills and work habits. Work crews receive training in problem-solving techniques, technical skill development, job safety, punctuality, and effective communication skills.

Northern Utah Corrections

Provides prevention and treatment programs within the Correctional system. This includes both group and individual therapy. The approach is an intensive process designed to produce significant, positive lifestyle changes.

Management and General

Includes overall direction of the organization, general record keeping, fiscal management, public relations, personnel, and the board of directors.

Fundraising

A portion of management and general expenses has been allocated to reflect time and supplies used in fundraising efforts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Organization have been prepared on the accrual basis. The Organization follows the provisions of Statements of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations" and SFAS No. 116, "Accounting for Contributions Received and Contributions Made."

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Estimates in the Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Classes of Net Assets

Revenues and gains are classified based on the presence or absence of donor restrictions and reported in the following net asset categories:

- a. Unrestricted net assets represent the portion of net assets not subject to donor restrictions.
- b. Temporarily restricted net assets arise from contributions that are restricted by the donor for specific purposes or time periods.

- c. Permanently restricted net assets arise from contributions that are restricted by the donor in perpetuity.

All contributions are considered available for unrestricted use, unless specifically restricted by the donors. All expenses are reported as changes in unrestricted net assets.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments

The Organization has adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. These investments in marketable securities are not insured. The market values of these investments are subject to change based on changes in interest rates and other market conditions.

Accounts Receivable

Accounts receivable - fee for service represents charges to clients for treatment services which are not paid from grants.

Accounts receivable - vocational training represents charges to customers for services provided by clients participating in the vocational services program

The Organization does not impose finance charges on any accounts receivable. Periodically, management reviews accounts receivable and records an allowance for doubtful accounts for amounts which management believes may not be collectible. Accounts written off are charged against the allowance for doubtful accounts.

Fixed Assets

Fixed assets are recorded at acquisition cost, or if donated, at the fair market value at the date donated. The Organization capitalizes additions that exceed \$3,000. Depreciation expense is provided on a straight-line basis over the following estimated useful lives of the respective assets, which range from three to ten years. Depreciation expense for the year ended June 30, 2005 was \$48,941.

Income taxes

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the year ended June 30, 2005.

Food Stamps

The Organization receives no direct food stamp assistance from the Federal Government. When a participant in the program is receiving food stamps, these stamps are given to the Organization. The amount of food stamps received is recorded as revenue when received and as expense when used.

Contributions

Unconditional promises to give are recognized as revenue when the underlying promises are received by the Organization. Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restrictions ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Government Funding

Funding from all government sources is considered to be unrestricted as long as it is expended under contract guidelines and is expended in the period for which it is contracted.

Concentrations of Credit Risks

The Organization maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. At June 30, 2005, \$420,261 exceeded the FDIC insurance limit of \$100,000, and therefore was not insured. The Organization has not experienced any losses in such account and believes it is not exposed to any significant credit risk on cash.

The Organization receives a significant amount of its funding from government sources. Decreases in this government support would have an adverse effect upon the Organization.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Fair Value of Financial Instruments

The Organization has a number of financial instruments, none of which are held for trading purposes. The Organization estimates that the fair value of all financial instruments at June 30, 2005, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position.

Reclassifications

Certain items from June 30, 2004 have been reclassified to conform to the June 30, 2005 presentation.

3. RETIREMENT PLAN

The Organization has a defined contribution tax-deferred annuity retirement plan which covers substantially all employees. The employer contributions are calculated at five percent of gross salaries or six percent of gross salaries for employees with 10 years of service or more. The employees may make contributions to the plan not to exceed \$11,000 annually. Employees are eligible to enter the plan after one year of service and are fully vested at the time of contribution. For the year ended June 30, 2005, the Organization contributed \$47,300 to the plan. Other than plan contributions, the Organization has no other liability in connection with the plan.

4. RESTRICTED AND BOARD DESIGNATED NET ASSETS

Unrestricted, board designated net assets consist of the following at June 30, 2005:

General and operating reserves	\$ 1,022,753
Building and improvements	175,735
Development	55,000
MIS upgrades	32,334
Unemployment reserve	38,000
Van purchase - adult program	18,261
Capital expenditures	15,448
Medical compensation - vocational training	15,000
Future costs - Americans with Disabilities Act compliance	10,000
Transition house	6,000
Management consulting	4,885
Accounting software upgrade	3,814
Van purchase - Adolescent program	3,063
ADA prevention - handicap services	<u>1,103</u>
	<u>\$ 1,401,396</u>

Temporarily restricted net assets consist of the following at June 30, 2005:

Martindale Scholarship	\$ 9,649
George S. Eccles Foundation (vans)	11,871
Steiner Foundation	10,000
IHC	20,000
Hemingway Foundation	<u>1,634</u>
	<u>\$ 53,154</u>

5. RELATED PARTY

Western Odyssey, Inc. (Western Odyssey) is a related party in that the twenty-three member board of the Organization shares a board member with the three member board of Western Odyssey, Inc. Neither organization controls the other. The Organization leases its treatment, housing and administrative facilities from Western Odyssey and periodically contributes assets to Western Odyssey. The Organization is a co-signer or guarantor on three Western Odyssey bank loans of \$51,599, \$604,736 and \$210,465. Western Odyssey is responsible for monthly loan payments. The loans are secured by real property owned by Western Odyssey. All of Western Odyssey's assets, representing real property and related improvements, are leased to the Organization. Unaudited summarized financial information for Western Odyssey is as follows:

Assets	<u>\$ 2,519,567</u>
Liabilities	\$ 1,405,141
Net assets	<u>1,114,426</u>
	<u>\$ 2,519,567</u>
Revenues	\$ 201,357
Expenses	<u>(197,463)</u>
Changes in net assets	<u>\$ 3,894</u>

6. LEASE COMMITMENTS

The Organization leases its treatment, housing and administrative facilities from Western Odyssey. The Organization is a co-signor or guarantor on three Western Odyssey bank loans as more fully described in Notes 5 and 8.

Future minimum operating lease payments are based on remaining terms of the loan agreements that the Organization has co-signed or guaranteed. These payments are as follows.

<u>Year ending</u>	
06/30/2006	\$ 102,048
06/30/2007	102,048
06/30/2008	102,048
06/30/2009	94,500
06/30/2010	86,952
Thereafter	<u>210,096</u>
	<u>\$ 697,692</u>

Total rent expense for the year ended June 30, 2005 was \$178,451.

7. PROGRAM SERVICES

Program services of the Organization for the year ended June 30, 2005 consisted of the following:

Adult Services	\$ 1,094,898
Adolescent Treatment	1,194,641
Women and Children	506,313
Children's Services	304,287
Outpatient	374,297
Transition House	37,206
Vocational Training	238,637
Northern Utah Corrections	84,801
Prevention	<u>3,626</u>
	<u>\$ 3,838,706</u>

8. CONTINGENCIES

The Organization has co-signed or guaranteed three mortgage notes with Western Odyssey, a related party, as described in Note 8. These loans and the related property and equipment are recorded on the books of Western Odyssey. The loan balances at June 30, 2005 are \$51,599, \$604,736 and \$210,465 with interest rates at 4.75 percent, 7.94 percent, and 4 percent (beginning May 1, 2006, the interest rate will be the bank's index rate plus 3 percent), and monthly principal and interest payments are \$1,258, \$5,435 and \$1,811, respectively. Western Odyssey makes the monthly loan payments.

The Organization is a co-applicant for a U.S. Department of Housing and Urban Development Community Development Block Grant. The grant, a \$70,000 no-repayment loan, was passed through the State of Utah to Western Odyssey during the year ended June 30, 1997. The loan agreement stipulated that the funds be used to purchase low-income housing. As long as the building is used as low-income housing, no payments on the loan are required. If the building is used for any other purpose, Western Odyssey and the Organization, as a co-applicant, may be responsible to repay the principal and accrued interest. Management currently uses the building as required by the grant agreement and does not intend to use the building for a purpose other than that described in the grant.

Notes (continued)

9. PRIOR YEAR INFORMATION

The financial statements for the year ended June 30, 2004 are presented for comparative purposes only. The notes presented herein contain information regarding June 30, 2005. Please refer to the June 30, 2004 audited financial statements for information regarding the notes for that year.

SUPPLEMENTARY INFORMATION

AND

COMPLIANCE REPORTS

Odyssey House
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Agency or Pass-through Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Health and Human Services</u>			
Passed through Utah Department of Human Services			
Child Welfare Services	-	93.645	\$ 8,443
Foster Care – Title IV-E	-	93.658	17,665
Social Services Block Grant	-	93.667	63,324
TANF/BAFDC Benefits Program	-	93.558	22,130
Passed through Salt Lake County			
Treatment of Substance Abuse	AL1242C	93.959	<u>536,063</u>
Total U.S. Department of Health and Human Services			<u>647,625</u>
<u>U.S. Department of Agriculture</u>			
Federal Food Program	-	10.551	<u>92,695</u>
<u>U.S. Department of Veterans Affairs</u>			
VA Medical Services	-	64.009	<u>4,893</u>
<u>U.S. Department of Housing and Urban Development</u>			
Emergency Shelter	-	14.231	<u>7,000</u>
<u>U.S. Department of Justice</u>			
Probation contract	-	16.579	<u>68,519</u>
Total Expenditures of Federal Awards			<u>\$ 820,732</u>

Note 1 - Basis of Accounting

The supplementary schedule of expenditures of federal awards is prepared on the accrual basis of accounting. Grant expenditures are recognized as funds are spent or accrued. The information in this schedule is prepared in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Note 2 - Pass Through Awards

The Organization receives certain federal financial assistance from pass-through awards. The total federal financial assistance from pass-through awards is noted above.

Odyssey House
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Summary of Auditors' Results

1. We issued an unqualified opinion in our report on the financial statements of Odyssey House for the year ended June 30, 2005.
2. The results of our audit tests disclosed no instances of noncompliance which were considered material to the financial statements.
3. We issued an unqualified opinion in our report on compliance for major programs for the year ended June 30, 2005.
4. The results of our audit disclosed no audit findings which we are required to report.
5. The major program of Odyssey House for the year ended June 30, 2005 is as follows:
 - a. Treatment of Substance Abuse CFDA Number 93.959
6. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
7. Odyssey House did qualify as a low-risk auditee.

Findings Related To The Financial Statements

None

Findings and Questioned Costs for Federal Awards

None

Findings of Prior Audit - Year Ended June 30, 2004

There were no findings reported for the year ended June 30, 2004. Therefore, there are no outstanding resolution matters relating to major federal programs.

SHAW & CO., P.C.

Certified Public Accountants & Business Advisors

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Odyssey House
Salt Lake City, UT

We have audited the financial statements of Odyssey House (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated October 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Odyssey House's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Odyssey House's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the Organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Shaw & Co., P.C.

Bountiful, Utah
October 14, 2005

SHAW & CO., P.C.

Certified Public Accountants & Business Advisors

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Board of Directors
Odyssey House
Salt Lake City, UT

Compliance

We have audited the compliance of Odyssey House (a nonprofit organization) with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended June 30, 2005. Odyssey House's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Odyssey House's management. Our responsibility is to express an opinion of Odyssey House's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Odyssey House's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Odyssey House's compliance with those requirements.

In our opinion, Odyssey House complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Odyssey House is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Odyssey House's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the Organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Shaw & Co., P.C.

Bountiful, Utah
October 14, 2005

SHAW & CO., P.C.

Certified Public Accountants & Business Advisors

REPORT ON COMPLIANCE WITH STATE OF UTAH LEGAL COMPLIANCE AUDIT GUIDE

The Board of Directors
Odyssey House
Salt Lake City, UT

We have audited the financial statements of Odyssey House (a nonprofit organization) for the year ended June 30, 2005 and have issued our report thereon dated October 14, 2005. As part of our audit, we have audited the Organization's compliance with the requirements governing activities allowed or unallowed, allowable costs/cost principles, eligibility, and reporting that are applicable to each of its major State award programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The Organization received the following major State assistance awards from the State of Utah:

Utah Department of Human Services, Substance Abuse
Utah Department of Human Services, Division of Juvenile Justice Services
Utah Department of Corrections, Residential Substance Abuse Treatment

The management of Odyssey House is responsible for the Organization's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Odyssey House complied, in all material respects, with the requirements governing activities allowed or unallowed, allowable costs/cost principles, eligibility, and reporting that are applicable to each of its major State award programs for the year ended June 30, 2005.

Shaw & Co., P.C.

Bountiful, Utah
October 14, 2005